

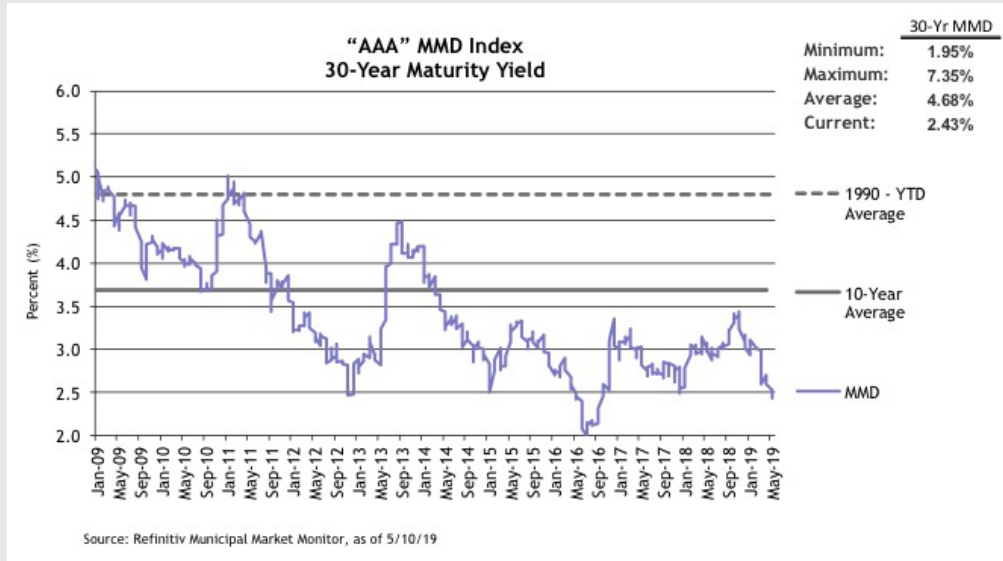
ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

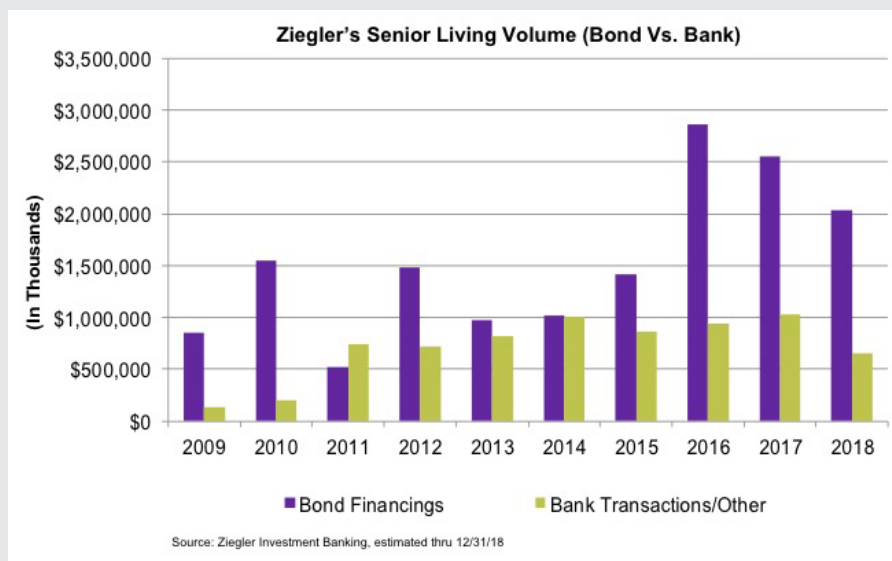
FEATURED ARTICLE

2019 FINANCING UPDATE: BANK DEBT IN A COMPETITIVE FIXED-RATE ENVIRONMENT

As interest rates fluctuate and as lending terms change over time, senior living providers adjust their capital strategies accordingly. In the years since the recession, we have seen changes in the volume of bond financings versus bank transactions, with a few cycles emerging during that time. In recent months, we have seen attractive low fixed-rate interest rates with MMD hovering in the 2.45%-3.00% range. In fact, since early 2014, the MMD (Municipal Market Data) Index has been well below the 10-year average.



The volume of senior living debt through the fixed-rate bond market has been particularly attractive given the low rates, but we have seen a shift in the percentage of providers who are accessing capital in the bond versus bank markets. While bank debt remains a viable option for many providers, particularly for shorter term-commitments, Ziegler has seen an overall decrease in bank debt over the past few years. This is detailed in the bar graph below.



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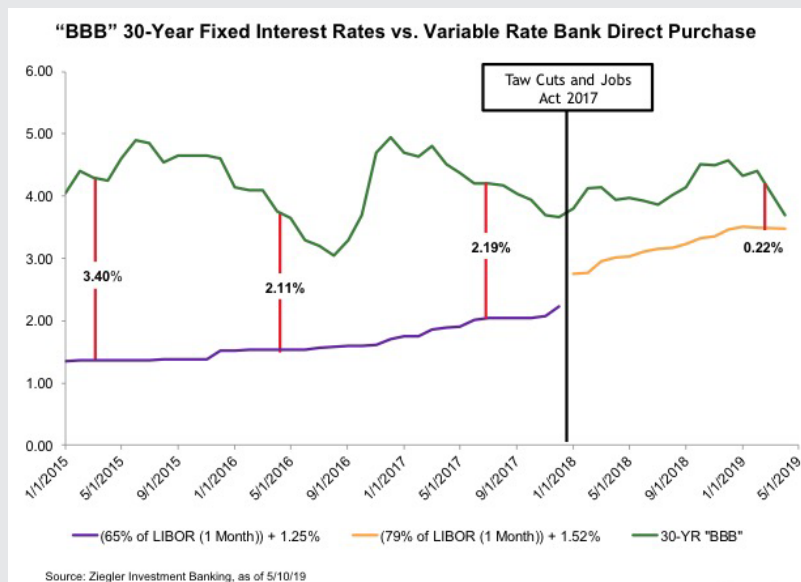
FEATURED ARTICLE

2019 FINANCING UPDATE: BANK DEBT IN A COMPETITIVE FIXED-RATE ENVIRONMENT (CONT)

Why the decrease in overall bank debt recently? There are several points to be made.

- Banks have been extending their commitment periods and, with banks primarily focused on refunding volume rather than new money, the longer timeframes have decreased the number of transactions each year.
- The Tax Cuts & Jobs Act that was adopted at the end of 2017 elevated the overall cost of bank capital. There was no corresponding increase in the cost of fixed-rate capital as a result of the Tax Cuts & Jobs Act.
- The very low 30-year fixed-rate bond debt has been attractive to senior living providers and a meaningful number have elected to switch from the variable-rate bank debt to the fixed-rate environment.

The graph below depicts the convergence in the cost of capital between bank direct purchase and the fixed-rate bond market and marks the changes post-Tax Cuts & Jobs Act adoption.



Overall, banks remain a viable option for senior living providers looking to access capital. However, the data shows us that there have been some fluctuations in recent years as rates change, terms change, and companies merge, thus impacting market-to-market dynamics. Senior living providers need to regularly evaluate their capital planning strategies. The Ziegler banking team can assist with evaluating various strategies and identifying the appropriate structure given the current lending environment and organizational goals.

For further information on Ziegler, or anything included in this article, please contact the Ziegler banker in your region.

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EDWARD C. MERRIGAN



On May 9th Ziegler lost a dear friend and respected colleague. Edward C. Merrigan passed away at age 68 after a courageous battle with lymphoma. He had retired in November after dedicating more than 20 years to Ziegler Research and an overall 36 years to the municipal market. Prior to joining Ziegler, where he was managing director over Ziegler Research, Ed led the healthcare and higher education ratings group at Fitch Ratings. Previous positions included manager of municipal high-yield research at Mabon, Nugent & Co.; and research positions at Glickenhous & Co. and MBIA. Ed Merrigan was one of the pioneers of high-yield municipal credit research. In May 2010, the National Federation of Municipal Analysts bestowed on him the Award of Excellence for his efforts in research and disclosure.

Ed was especially proud of his military service in Vietnam. He served in the United States Armed Forces where he did two tours of duty between 1969 and 1972. He received the Combat Infantry Badge, the Bronze Star, and multiple Commendation Awards. After Vietnam, Ed considered every day a gift.

Ed's illness may have gotten the best of him, but he held strong, kept his witty sense of humor throughout, and informed us of every step he took along his journey battling lymphoma.

Our Reluctant Warrior has laid down his sword and will surely be missed!

[Edward C. Merrigan Obituary](#)

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF MAY 13, 2019

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Sunnyside Village (FL)	Fitch	BBB Stable	Affirmed Rating	4/30/19
Emerald Heights (WA)	Fitch	A- Stable	Affirmed Rating	5/3/19
Evangelical Lutheran Good Samaritan Society (SD)	S&P	BBB+ Stable	Upgraded Rating	5/6/19
Marquette (IN)	Fitch	BBB Stable	Affirmed Rating	5/7/19
Shell Point (FL)	S&P	BBB+ Stable	Assigned Rating Affirmed Rating	5/7/19
Kendal on Hudson (NY)	Fitch	BBB Stable	Affirmed Rating	5/13/19

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INTEREST RATES/YIELDS

(AS OF MAY 10, 2019)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.43%	2.53%	2.97%
Senior Living 30-Yr "A"	3.13%	3.23%	3.84%
Senior Living 30-Yr "BBB"	3.43%	3.53%	4.12%
Senior Living Unrated	4.43%	4.53%	4.90%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.59%	2.12%	1.52%
	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.65%	4.65%	2.22%

*Ziegler Senior Living Municipal Long Bond Index
 Source: Ziegler Capital Markets

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

Stocks remained close to net unchanged by week-end last week, as monetary policy from the Federal Reserve sent stocks lower on Wednesday. Wednesday's losses were offset by a gain on Friday following a strong jobs report, another indicator that exceeded analyst expectations, and added to one of the strongest quarters for the U.S. in a decade. The stock market has notched its best start to a year since 1987, as the S&P 500 rose 3.9% in April, and the Dow and NASDAQ posted 2.6% and 4.7% gains respectively. Over the weekend, President Trump's statement that he would spike the tariff on \$200bn of Chinese goods from 10% to 25% on this coming Friday sent stocks tumbling at market open on Monday, causing a rally in Treasuries as investors flocked to haven securities.

As expected, the U.S. Federal Reserve kept interest rates unchanged on Wednesday, as the Fed signaled they have no case for moving rates up or down for the time being. Chairman Jerome Powell also downplayed concerns that softness in inflation could indicate an underlying weakness in the U.S. economy. The government release of the Consumer Price Index is scheduled to come out this Friday and will be closely watched by the market as a recent downturn in inflation has generated plenty of talks with policymakers. In March, core inflation rose at an annual rate of 1.6%, down from 1.8% the month previous.

Last week in municipal bonds, the 30-year MMD benchmark bumped three basis points from 2.55% to 2.52%. Additionally, investors have stayed more quiet than usual as they struggle to find places to park their cash in a rich muni bond market mixed with record inflows. Last week, municipal bond funds experienced \$1,191 million of weekly reporting fund inflows, the 17th consecutive week of inflows. Municipal long-term funds had \$708 million of weekly inflows, high yield funds had \$295 million of weekly inflows, national funds had \$1,112 million of weekly inflows, and ETFs had \$314 million of weekly inflows. In 2019, there have been 17 weeks of inflows and one week of outflows. In 2018, there were 29 weeks of inflows and 23 weeks of outflows.

ADAM J. BUCHANAN
SENIOR VICE PRESIDENT

See pages 6-7 for current market rates

Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.

MARKET REVIEW

MONEY MARKET RATES

	5/3/19	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.50	5.50	5.50	4.75
Federal Funds (weekly average)	2.42	2.41	2.40	1.68
90 Day T-Bills	2.41	2.41	2.42	1.83
30-Day Commercial Paper (taxable)	2.42	2.41	2.47	1.85
Libor (30-day)	2.46	2.48	2.47	1.92
7 Day Tax-Exempt VRDB	2.12	2.30	1.48	1.61
Daily Rate Average	1.95	2.23	1.38	1.42

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A		MMD	NR*	BB	BBB	A	AAA
1 Year	2.38	2.68	1 Year	1.55	3.05	2.75	2.15	1.70	1.55
5 Year	2.31	3.06	5 Year	1.63	3.23	2.98	2.43	2.03	1.78
7 Year	2.42	3.37	7 Year	1.69	3.49	3.19	2.64	2.24	1.89
10 Year	2.52	3.62	10 Year	1.85	3.85	3.45	2.85	2.55	2.05
30 Year	2.92	4.32	30 Year	2.53	4.53	4.13	3.53	3.23	2.73

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE	2019 HIGH	LOW
Bond Buyer					
20 Bond Index	3.73	3.79	-.06	4.24	3.73
11 Bond Index	3.25	3.31	-.06	3.71	3.25
Revenue Bond Index	4.21	4.27	-.06	4.71	4.21
30 Year MMD	2.53	2.59	-.06	3.11	2.53
Weekly Tax-Exempt Volume (Bil)	2.84	3.34	-.50	5.80	0.20
30 Day T/E Visible Supply (Bil)	4.62	4.08	+.54	6.60	1.92
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	110.23	112.67	-2.44	134.42%	110.23%

INTEREST RATE COMPARISON

DATE	7-DAY T/E VRDB	PRIME RATE	FED FUNDS WEEKLY AVG.	13-WEEK T-BILL RATE	C.P.RATE TAXABLE	LIBOR (30-DAY)	30-YEAR T/E BONDS (A-AAA)		
05/03/19	2.12	5.50	2.42	2.41	2.42	2.48	3.23	-	2.73
04/26/19	2.30	5.50	2.41	2.41	2.41	2.48	3.29	-	2.79
04/19/19	2.04	5.50	2.43	2.47	2.43	2.48	3.40	-	2.90
04/12/19	1.54	5.50	2.40	2.44	2.43	2.48	3.38	-	2.88
04/05/19	1.48	5.50	2.40	2.42	2.47	2.47	3.40	-	2.90
03/29/19	1.50	5.50	2.40	2.40	2.43	2.49	3.30	-	2.80
03/22/19	1.53	5.50	2.40	2.46	2.46	2.49	3.44	-	2.94
03/15/19	1.61	5.50	2.40	2.43	2.46	2.48	3.77	-	3.32
03/08/19	1.67	5.50	2.40	2.44	2.43	2.49	3.82	-	3.37
03/01/19	1.74	5.50	2.40	2.43	2.43	2.49	3.88	-	3.43
02/22/19	1.75	5.50	2.40	2.44	2.44	2.48	3.91	-	3.46
02/15/19	1.72	5.50	2.40	2.42	2.44	2.48	4.00	-	3.45
02/01/19	1.43	5.50	2.40	2.39	2.40	2.51	4.02	-	3.47
01/04/19	1.63	5.50	2.40	2.42	2.47	2.52	3.93	-	3.38
12/07/18	1.65	5.25	2.19	2.39	2.30	2.38	4.08	-	3.55
11/02/18	1.61	5.25	2.18	2.25	2.25	2.31	3.83	-	3.38
10/05/18	1.53	5.25	2.16	2.21	2.21	2.28	4.11	-	3.76
09/07/18	1.49	5.00	1.91	2.13	2.04	2.12	3.86	-	3.51
08/03/18	1.29	5.00	1.90	2.00	1.94	2.08	3.80	-	3.50
07/06/18	1.19	5.00	1.90	1.91	1.96	2.09	3.67	-	3.37
06/01/18	1.06	4.75	1.69	1.91	1.86	1.98	3.62	-	3.32
05/04/18	1.61	4.75	1.68	1.83	1.85	1.92	3.80	-	3.50

Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.